

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

(MARK ONE)

☒ Quarterly Report Pursuant to Section 13 or 15(d) of Securities Exchange
Act of 1934

For the quarterly period ended April 30, 2002

☐ Transition report under Section 13 or 15(d) of the Securities Exchange
Act of 1934

For the transition period from _____ to _____.

Commission File No. 000-28321

ARS NETWORKS, INCORPORATED

(Name of Small Business Issuer in Its Charter)

New Hampshire

14-1805077

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer Identification No.)

100 Walnut Street, Champlain, New York 12919

(Address of Principal Executive Offices) (Zip Code)

(518) 298-2042

(Issuer's Telephone Number, Including Area Code)

Check whether the issuer: (1) filed all reports required to be filed by
Section 13 or 15(d) of the Exchange Act during the past 12 months, and (2) has
been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

There were 20,613,394 shares of Common Stock outstanding as of June 14, 2002.

Part I -- Financial Information

Item 1. Financial Statements

ARS NETWORKS, INCORPORATED AND SUBSIDIARY CONSOLIDATED BALANCE SHEET (UNAUDITED) (\$US)

ASSETS		April 30, 2002
CURRENT		
Cash		\$7,870
Accounts receivable		81,262
Due from officer		8,389
Inventories		65,180
Prepaid expenses (Note 4)		74,258
		<hr/>
TOTAL CURRENT ASSETS		236,959
OTHER ASSETS		
Goodwill, net of amortization of \$86,004		329,200
Machinery and equipment, net		10,530
Other		646
		<hr/>
		\$577,335
		=====
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable		\$195,667
Accrued compensation and fees		738,926
Accrued expenses - other		10,270
Note and advances payable - related parties (Note 6)		86,300
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TOTAL CURRENT LIABILITIES		1,031,163
		<hr/>

STOCKHOLDERS' DEFICIT (Notes 5 AND 6)	
Preferred stock, \$.0001 par value - 25,000,000 shares authorized; none outstanding	-
Common stock - \$.0001 par value - 50,000,000 shares authorized; 20,113,394 outstanding	2,012
Additional paid in capital	4,051,766
Accumulated deficit	(4,507,606)
TOTAL STOCKHOLDERS' DEFICIT	<u>(453,828)</u>
	<u>\$577,335</u>
	=====

See accompanying notes

ARS NETWORKS, INCORPORATED AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF LOSS (UNAUDITED)
(\$US)

	Three Months Ended April 30, 2001	Three Months Ended April 30, 2002
SALES	\$ 282,649	\$ 79,441
COST OF SALES	231,992	73,613
GROSS PROFIT	<u>50,657</u>	<u>5,828</u>
OPERATING EXPENSES		
Advertising and promotion	140,319	83,113
Professional fees	136,696	22,508
Compensation	109,024	101,240
Development expenses	44,843	21,683
Rent and telecommunications	9,398	16,114
Depreciation and amortization	8,123	635
General	11,497	3,876
TOTAL OPERATING EXPENSES	<u>459,900</u>	<u>249,169</u>
OPERATING LOSS	<u>(409,243)</u>	<u>(243,341)</u>
INTEREST EXPENSE	3,835	1,352
LOSS BEFORE INCOME TAXES	<u>(413,078)</u>	<u>(244,693)</u>
INCOME TAXES	8,000	(8,842)
NET LOSS	<u>\$ (421,078)</u>	<u>\$ (235,851)</u>
	=====	=====
LOSS PER SHARE (BASIC AND DILUTED):		
Net loss	\$ (.03)	\$ (.01)
	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING	13,144,217	19,528,971
	=====	=====

See accompanying notes

ARS NETWORKS INCORPORATED AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (NOTE 9)
(\$US)

	Three Months Ended April 30, 2001	Three Months Ended April 30, 2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (421,078)	\$(235,851)
Adjustments to reconcile net loss to net cash (used in) operating activities:		
Professional fees settled in stock	154,185	16,709
Depreciation and amortization	8,123	635
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	119,765	(453)
Decrease (increase) in inventories	8,267	(19,552)
Decrease in prepaid expenses	8,017	69,560
(Increase) in due from officer	(5,765)	(1,890)
Increase in accounts payable and accrued expenses	10,153	112,763
TOTAL ADJUSTMENTS	302,745	177,772
NET CASH (USED IN) OPERATING ACTIVITIES	(118,333)	(58,079)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the sale of common stock	148,100	10,000
Payments of long-term debt	(1,355)	(1,258)
Advances from officers	-	22,500
NET CASH PROVIDED BY FINANCING ACTIVITIES	146,745	31,242
NET INCREASE (DECREASE) IN CASH	28,412	(26,837)
CASH, BEGINNING OF PERIOD	125,366	34,707
CASH, END OF PERIOD	\$ 153,778	\$ 7,870
	=====	=====

See accompanying notes

ARS NETWORKS, INCORPORATED AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
INFORMATION AS OF APRIL 30, 2002 AND FOR
THE PERIODS ENDED APRIL 30, 2002 AND 2001 IS UNAUDITED
(\$US)

1. ORGANIZATION

ARS Networks, Incorporated (“ARS”), incorporated on May 4, 1998 in New Hampshire, was formed to design and develop advanced railway communications and data management systems. ARS’s first product under development is Crosslogix™, an advanced warning system for railway level crossings. The Company is devoting most of its efforts to this business line.

On July 31, 2000, ARS acquired the stock of T & T Diesel Power, Ltd. (“T & T”). T & T manufactures custom diesel power generating equipment. As a result of this acquisition, ARS began to earn revenue and is no longer considered a development stage enterprise.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER INFORMATION

Basis of Presentation

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles and are presented in U.S. dollars.

Principles of Consolidation

The consolidated financial statements include the accounts of ARS and its wholly owned subsidiary, T & T. All material intercompany accounts and transactions are eliminated.

Going Concern and Management's Plans

The Company has a limited operating history with no revenues from its railway communications and data management systems business. Because of this, the Company faces significant obstacles in regards to financing and customer acceptance of the Company's products. The Company's continuation as a going concern is dependent upon its ability to raise capital under its equity line of credit (Note 5) or from other external sources to fund the remaining development, operations and marketing of Crosslogix™. In connection with the equity line of credit, the Company has registered additional shares for sale with the Securities and Exchange Commission

These factors create uncertainty about the Company's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effect on recoverability and classification of assets or the classification of liabilities that might result from the outcome of this uncertainty.

Earnings Per Share

The Company follows Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share," which requires presentation of basic earnings per share and diluted earnings per share by all entities that have publicly traded common stock or potential common stock (options, warrants, convertible securities or contingent stock arrangements). Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share gives effect to dilutive potential common shares outstanding during the period. Assumed exercise of options has not been included in the calculation of diluted earnings per share since the effect would be anti-dilutive. The number of potential common shares excluded from the diluted loss per share calculations, since the effect would be antidilutive, was 4,293,497 and 7,840,284 for the periods ended April 30, 2001 and 2002, respectively. Accordingly, basic and diluted net loss per share do not differ for any period presented.

Unaudited Interim Financial Information

The accompanying financial statements are unaudited; however, in the opinion of management, all adjustments necessary for a fair statement of financial position and results for the stated periods have been included. These adjustments are of a normal recurring nature. Selected information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Results for interim periods are not necessarily indicative of the results to be expected for an entire fiscal year. It is suggested that these condensed financial statements be read in conjunction with the audited financial statements and accompanying notes for the year ended January 31, 2002.

Effect of recent accounting pronouncements

In June 2001, the FASB finalized SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires the use of the purchase method of accounting and prohibits the use of the pooling-of-interests method of accounting for business combinations initiated after June 30, 2001. SFAS No. 141 also requires that the Company recognize acquired intangible assets apart from goodwill if the acquired intangible assets meet certain criteria. SFAS No. 141 applies to all business combinations initiated after June 30, 2001 and for purchase business combinations completed on or after July 1, 2001. It also requires, upon adoption of SFAS No. 142, that the Company reclassify the carrying amounts of intangible assets and goodwill based on the criteria in SFAS No. 141.

SFAS No. 142 requires, among other things, that companies no longer amortize goodwill, but instead test goodwill for impairment at least annually. In addition, SFAS No. 142 requires that the Company identify reporting units for the purposes of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets, and cease amortization of intangible assets with an indefinite useful life. An intangible asset with an indefinite useful life should be tested for impairment in accordance with the guidance in SFAS No. 142. SFAS No. 142 is required to be applied in fiscal years beginning after December 15, 2001 to all goodwill and other intangible assets recognized at the date, regardless of when those assets were initially recognized. SFAS No. 142 requires the Company to complete a transitional goodwill impairment test six months from the date of adoption. The Company is also required to reassess the useful lives of other intangible assets within the first interim quarter after adoption of SFAS No. 142.

The acquisition of T & T was accounted for using the purchase method. As of January 31, 2002 and April 30, 2002, the net carrying amount of goodwill is \$329,200. Currently, the Company is assessing but has not yet determined how the adoption of SFAS No. 141 and SFAS No. 142 will impact its financial position and results of operations.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Assets Retirement Obligations," which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 is required to be applied for fiscal years beginning after June 15, 2002. The adoption of SFAS No. 143 is not expected to have a material effect on the Company's financial statements.

In October, 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which addresses financial accounting for the impairment or disposal of long-lived assets. SFAS No. 144 requires that one accounting model be used for long-lived assets to be disposed of by sale, and broadens the presentation of discontinued operations to include more disposal transactions. SFAS No. 144 is required to be applied for fiscal years beginning after December 15, 2001. The adoption of SFAS No. 144 is not expected to have a material effect on the Company's financial statements.

3. ACQUISITION OF T & T

On July 31, 2000, ARS purchased all of the outstanding stock of T & T. The acquisition was accounted for as a purchase. The purchase price was \$418,266 of which \$102,750 was paid in cash at closing, with notes payable to the former shareholders of T & T ("the sellers") of \$115,516, and the issuance of 200,000 shares of ARS common stock valued at \$200,000. The notes payable accrued interest at 8% and were paid on August 9, 2001. The acquisition resulted in goodwill of approximately \$415,000, including approximately \$31,000 of acquisition costs which was being amortized on a straight-line basis over 7 years. As of February 1, 2002, no further amortization will be expensed in compliance with SFAS 142.

4. PREPAID EXPENSES

On January 29, 2002, the Company issued 1,000,000 common shares pursuant to a consulting agreement for services to be rendered by the consultant for a six month period. These shares were valued at \$140,000. During the three months ended April 30, 2002, the Company has expensed \$70,000 of this fee for services received to date and reduced the outstanding prepaid expense for this agreement to \$70,000 as of April 30, 2002.

5. EQUITY LINE OF CREDIT

In March 2001, the Company entered into an equity line of credit agreement “the equity line” with Cornell Capital Partners, L.P. (“the investor”). Under the equity line, the investor is committed to purchase up to \$5,000,000 of the Company’s common stock over the course of 24 months commencing on the earlier of (i) effective registration of the shares, or (ii) as mutually agreed in writing. Under the equity line, the Company may request an advance by the investor. The number of shares of common stock that the investor shall receive for each advance shall be determined by dividing the amount of the advance by the purchase price. The purchase price is 90% of the market price. The maximum advance amount shall be equal to 150% of the average daily volume of the Company’s common stock multiplied by the purchase price. The average daily volume shall be computed by using the forty (40) trading days prior to the advance notice date. The advance notice date is the date the investor receives a written notice from the Company requesting an advance amount under the equity line. The market price is the average of the lowest closing bid prices of the common stock over the ten (10) trading day period beginning on the first trading day after an advance notice date and ending on the trading day prior to the relevant advance date.

There will be a minimum of eleven (11) trading days between advance notice dates. The Company has the right to withdraw that portion of an advance that does not meet the minimum acceptable price. The minimum acceptable price is defined as 75% of the lowest closing bid price of the Company’s common stock for the fifteen (15) trading days prior to a relevant advance notice date.

Upon each advance date, the Company shall pay to the investor’s business manager, Yorkville Advisors Management, LLC (“the investment manager”) an amount equal to 8.4% of the amount of the advance. Upon the execution of the equity line, the Company issued 450,000 restricted shares of the Company’s common stock to the investment manager which were reflected as a cost of raising capital and recorded at par in the accompanying financial statements. Such restricted shares have demand and “piggyback” registration rights.

In connection with the equity line of credit, the Company obtained from certain officers and directors, a lock-up agreement, which limits the ability of the officers and directors to sell securities of the Company.

Additionally, under the covenants of the equity line, the Company shall not effect any merger or consolidation, or transfer substantially all of the assets of the Company into another entity, unless the resulting successor or acquiring entity (if not the Company) assumes the obligation to deliver to the investor such shares as the investor is entitled to pursuant to the equity line.

On July 20, 2001, ARS borrowed \$150,000 from the investor. During the year ended January 31, 2002, ARS sold a total of 2,780,617 shares of common stock to the investor under the equity line of credit for net proceeds of \$270,000, a portion of which was used to repay the loan from the investor in full prior to January 31, 2002. The loan accrued interest at an annual rate of 12%. In connection with the loan, ARS issued warrants to purchase 333,000 shares of ARS' common stock at an exercise price of \$0.50 per share. The warrants were assigned a value of \$136,530 which was recorded as a discount on the related note payable to the investor. The discount was amortized over the term of the note payable (90 days) to interest expense. Such amortization included in interest expense amounted to \$136,530 for the year ended January 31, 2002. The president of the company had personally guaranteed the loan from the investor and had pledged 3,000,000 shares of common stock to the lender as security for the loan.

6. RELATED PARTY TRANSACTIONS

The note payable - related party is for \$100,000 (Canadian). The note was due July 31, 2001 and bears interest at 8.5% per annum. The balance due in United States currency on this note is \$63,800 as of April 30, 2002. In January, 2002, the Company issued options to purchase 100,000 shares and in February 2002 issued 25,000 common shares to the related party in connection with the note payable.

During the quarter ended April 30, 2002, officers of the Company advanced an aggregate of \$22,500 to the Company. These advances will be repaid as the Company raises additional capital.

During the quarter ended April 30, 2002, management exercised stock options for 600,000 shares at a price of \$0.13 per share for a total of \$78,000 which was recorded as a reduction in accrued management compensation.

On April 10, 2001, the Board of Directors authorized the issuance of stock options for 750,000 shares to members of the Board of Directors. The exercise price is \$0.50 based on the closing price of the Company's stock on the date of issuance of the options.

7. SEGMENT INFORMATION

The Company has two reportable segments: (i) ARS which is designing and developing advanced railway communication and data management systems and (ii) T & T which manufactures custom diesel power generating equipment. The Company operates these segments as separate strategic business units. All of the Company's sales and equipment relate to T & T and are in Canada. The majority of T & T's customers are located in Eastern Canada. Management considers goodwill and its amortization to be part of the T & T segment for purposes of allocating resources and assessing performance. The following tables set forth certain performance and other information by reportable segment.

Three Months Ended April 30, 2001	ARS	T&T	Total
Sales	\$ -	\$ 282,649	\$ 282,649
Segment income (loss)	(428,826)	7,748	(421,078)
Total assets	131,095	670,527	801,622

Three Months Ended April 30, 2002	ARS	T&T	Total
Sales	\$ -	79,411	79,411
Segment (loss)	(218,603)	(17,248)	(235,851)
Total assets	117,873	459,462	577,335

8. SUBSEQUENT EVENT

In May 2002, the Board of Directors authorized the 2002 NON-QUALIFIED STOCK COMPENSATION PLAN which reserves 5,000,000 shares for employees, directors, officers, consultants, advisors and other persons associated with the Company and is intended to advance the best interests of the Company by providing those persons who have a substantial responsibility for its management and growth with additional incentive by increasing their proprietary interest in the success of the Company.

9. SUPPLEMENTAL CASH FLOW INFORMATION

Noncash activities consist of the following:

	Three Months Ended April 30, 2001	Three Months Ended April 30, 2002
Exercise of stock options for 600,000 shares @ \$0.13 per share, offset against accrued compensation	\$ - =====	\$ 78,000 =====
Common stock issued to settle accounts payable (346,000 and 309,340 common shares)	\$ 93,041 =====	\$ 58,783 =====

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following information should be read in conjunction with the consolidated financial statements of ARS and the notes thereto appearing elsewhere in this filing. Statements in this Management's Discussion and Analysis or Plan of Operation that are not statements of historical or current fact constitute "forward-looking statements."

Overview

ARS was formed in 1998 to design and develop advanced railway communications and data management systems and as such has a limited operating history. In July 2000, ARS completed the purchase of T & T Diesel Power, Ltd., which has been in business for 20 years. In spite of this acquisition, ARS faces significant obstacles with regard to customer acceptance of ARS' products.

The Company entered into the Equity Line of Credit Agreement in March 2001. Under the Equity Line of Credit, ARS may sell to Cornell Capital Partners up to \$5.0 million of common stock over the two-year period following commencing on the earlier of (i) the effective date of a registration statement relating to the sale of the common stock purchased by Cornell Capital Partners under the Equity Line of Credit or (ii) as agreed upon in writing. On July 20, 2001, ARS borrowed \$150,000 from Cornell Capital Partners. This loan was fully repaid in December 2001. The Company continues to seek financing from other sources including individual and institutional investors to fund ongoing operations.

Results of Operations

Three Months Ended April 30, 2002 Compared To Three Months Ended April 30, 2001

Sales. ARS had sales of \$79,441 and \$282,649 in the three months ended April 30, 2002 and 2001, respectively. All of these sales relate to ARS' wholly owned subsidiary, T&T Diesel Power, Ltd. These results reflect reduced demand for generators in recent months primarily from the telecommunications industry. Nevertheless, ARS is optimistic that we are going to meet our 2002 target and have contracted a new sales professional to take advantage of opportunities created by the deregulated electricity market in Ontario and the overall robust recovery of the Canadian economy. His efforts to date have generated numerous proposals in the standby and prime power markets that we expect will develop into strong sales growth in Q3.

Cost of Sales. ARS had cost of sales of \$73,613, or 93% of sales, for the three months ended April 30, 2002 compared to \$231,992, or 82% of sales, in the corresponding period in the prior year. Such cost of sales relate to the sale of products from our wholly owned subsidiary, T&T Diesel. The generally slow market conditions have impacted pricing and the absorption of fixed plant overhead thus reducing margins.

Total Operating Expenses. ARS' total operating expenses decreased from \$459,900 to \$249,169, in the three months ended April 30, 2001 and 2002 respectively. The decrease in operating expenses is principally due to reduced expenditures in advertising and promotion and professional fees in 2002 versus the comparable prior year period.

Net Loss. ARS had a net loss of \$235,851 or \$0.01 per share, in the three months ended April 30, 2002 compared to a net loss of \$421,078, or \$0.03 per share, in the comparable period in the prior year. The reduction in net loss is due for the most part to reduced professional and promotional expenses.

Plan Of Operation

ARS was formed in 1998 to design and develop advanced railway communications and data management systems and as such has a limited operating history. However, in July 2000, ARS completed the purchase of T&T Diesel Power, Ltd., which has been in business for 20 years. In spite of this acquisition, ARS faces significant obstacles with regard to customer acceptance of ARS' products.

The prime focus of ARS' Crosslogix™ private wireless network is management of railway traffic and public safety. While the ARS system and its component parts were developed to improve safety at rail crossings, the ARS system supports many applications in real time data collection, processing, monitoring and information analysis. The system has evolved into Crosslogix™, an integrated service information system, the foundation of the ARS wireless private network.

ARS' objective is to build and design state of the art communications systems that meet customer demands, that are cost competitive, and that are capable of standing up to the tough conditions of continuous use in the railway industry.

The Advance Warning System for railway level crossings is the first commercial application to be offered by ARS on its integrated service information system. ARS' Crosslogix™ technology provides a portal for the integration of an extensive family of wayside warning and wayside to train communications applications. The ability to integrate other applications to ARS' system adds considerable value for the railways and yet is relatively inexpensive to implement. ARS' development effort with respect to the Crosslogix™ technology consists of:

- Completion of the third party vital system audit of the crossing control feature. Phase 1 of the audit was completed in November 2001 with positive results and recommendations. Phase 2 is now under way and a preliminary phase 2 report has been received from the third party auditor. This report indicates that ARS has advanced substantially since phase 1. As a result, ARS expects that the system should receive certification by Q3 2002.
- Creation of the wide area network application in parallel to the completion of the vital system audit. The wide area network application will be used to collect data from the deployed crossing control product and distribute it to users.
- Creating the software to interface the crossing control feature to be used in connection with other commercially available applications such as hotbox detection, flat wheel monitoring, hanging objects, frozen brakes and others.

In addition, Crosslogix adds the following wayside capabilities:

- **Wheel Count:** The ARS system can provide immediate and accurate wheel counts to ensure crossing control and deliver this data immediately to the control center.
- **Train Speed and Direction:** The system can measure train speed and direction and accurately determine the arrival time (time Stamp) of the train at the crossing and determine the time that the train will arrive at the next crossing / node. Competing systems do not time stamp train speed and detect direction.

The addition of the traditional applications noted above will result in operational and maintenance benefits for railroads through the early detection of flat wheels, hotboxes (bearing failures) etc. In addition, Crosslogix can provide additional railroad maintenance and operations efficiency. Among the features of the ARS network:

Car and Cargo location: Through a complete node network of Crosslogix units, rail operators and customers will have the ability to monitor train and rail cargo location and better plan for delivery adjustments and rail connections.

Locomotive condition Monitoring: Locomotive data such as oil pressure, etc can be transmitted to the Crosslogix node and immediately delivered to rail operators who can then send repair orders to maintenance shops in order to minimize maintenance costs, or shut down the locomotive to prevent catastrophic failures (predictive maintenance). The current class I railway locomotive fleet is approximately 20 thousand units.

Rolling Stock Monitoring: Cost saving maintenance programs utilizing accurate car usage and availability information coupled with seamless problem identification, correction will result in better inventory management. The current rolling stock inventory is approximately 1.5 million units.

Hazardous goods condition monitoring of specialized freight such as chemicals to reduce customer claims and help prevent potential catastrophic failures causing death and evacuation and horrific environmental disasters resulting in costly civil suits.

Perishable goods condition monitoring; of refrigerated goods such as sea foods, fruits and vegetables etc. are vulnerable to spoilage due to failure of the refrigerated unit

Existing products and services do not meet these current recognized needs. It will become progressively more critical to meet these needs as the market becomes increasingly competitive, traffic and competition increase and safety becomes an even greater concern to the public and government agencies.

Many of the above applications are currently available in the market place while others will need to be developed. For those commercially available, ARS will need to develop software to integrate the functionality into the Crosslogix system. Other applications such as inter-modal reefer monitoring will need to be adapted from currently available products so that the information obtained can be easily communicated over the ARS network.

Railway crossing systems are one of the most important safety systems used by railroads. Canadian Pacific Railroad (CPR) has cooperated in the installation for testing purposes of the ARS Advance Crossing System application on its main line in Mississauga, Ontario, Canada. ARS intends to offer to sell/lease/rent crossing systems to each of its customers in an effort to install systems at all targeted railways as soon as possible. Certification of the ARS Advance Warning System by selected Class I railways may lead to opportunities for installations at Class II and Class III railways. Many Class II and III railways traditionally forego testing if Class I railways have certified a technology. However, certification does not guarantee market acceptance of ARS' technology. The Surface Transportation Board (STB) defines Class I railroads as those with an average annual operating revenue of \$256.4 million or more; Class II railroads are those with average operating revenues between \$20.5 million and \$256.4 million; and Class III railroads are those with average operating revenues of less than \$20.5 million.

ARS is currently looking for distribution channels related to the signaling and communications business in order to market the Crosslogix system. ARS expects to build a field support group to service the railways directly, which is expected to provide further brand recognition to ARS and its products. It is anticipated that the railways will demand a strong technical service group to support systems sold. ARS believes growth in this area will be ongoing and dependent on future sales.

T&T Diesel Power Limited Plan of Operations:

T&T Diesel Power Limited has been in business for over 20 years servicing a range of customers from the rental, telecommunications, film, construction and other industries. The effects of September 11 and a general downturn in the economy negatively affected the operations of T&T over the past few months.

The Company is optimistic that the situation is improving and will continue to improve over the next few months. Deregulation of the Electric utility industry in Ontario as well as the overall robust recovery of the Canadian economy will result in an increased demand for reliable electricity generation from other sources. Furthermore, ARS has contracted with an experienced sales professional with extensive contacts in the industry. This salesman is responsible for developing new business for the Company and generating new and more profitable business opportunities for T&T.

Key among the objectives are contacts with co-generation facilities, larger industrial users of generators, seeking new product lines and increasing the service operations of T&T. Management believes that positive results from these efforts will be evident in the short term.

The combination of the salesman seeking new opportunities, electricity deregulation and an improving market for generators bode well for the future of T&T.

Liquidity and Equity Line of Credit

The Company is dependent on external cash to fund its operations. Our independent auditors have noted there is substantial doubt about our ability to continue as a going concern. See Note 2 to the Consolidated Financial Statements for the year ended January 31, 2002. This “going concern” opinion is due, in part, to our need to raise capital to continue operations, including the development of the Company’s railway communications and data management systems business, marketing efforts and potential acquisitions.

In March 2001, ARS entered into the Equity Line of Credit with Cornell Capital Partners, L.P. To date, ARS has raised gross proceeds of \$300,000 (\$270,000 net) under the Equity Line of Credit. ARS anticipates that it will require additional funding to fund development, operations and marketing of its product. Such funding may come from the Equity Line of Credit and the Company is exploring other financing options to raise the required capital. .

In an attempt to meet its working capital needs, the Company entered into an equity line of credit agreement on March 27, 2001 with the Investor. Under the equity line, the Investor is committed to purchase up to \$5,000,000 of the Company’s common stock over the course of 24 months commencing on the earlier of (i) effective registration of the shares or (ii) as mutually agreed in writing. Under the equity line, the Company may request an advance by the Investor. The number of shares of common stock that the Investor shall receive for each advance is determined by dividing the amount of the advance by the purchase price. The purchase price is 90% of the market price. The maximum advance amount is equal to 150% of the average daily volume of the Company’s common stock multiplied by the purchase price. The average daily volume is computed by using the forty (40) trading days prior to the advance notice date. The advance notice date is the date the investor receives a written notice from the Company requesting an advance amount under the equity line. The market price is the average of the lowest closing bid prices of the common stock over the ten (10) trading day period beginning on the first trading day after an advance notice date and ending on the trading day prior to the relevant advance date.

There is a minimum of eleven (11) trading days between advance notice dates. The Company has the right to withdraw that portion of an advance that is less than 75% of the lowest closing bid price of the Company’s common stock for the fifteen (15) trading days prior to a relevant advance notice date.

Upon each advance, Yorkville Advisors Management, LLC (the “Investment Manager”) is entitled to receive an amount equal to 8.4% of the amount of the advance. At the time of the equity line, the Company issued 450,000 restricted shares of the Company’s common stock to the Investment Manager. Such restricted shares as well as the shares under the Equity Line of Credit have demand and “piggyback” registration rights. In connection with the equity line of credit, the Company obtained from certain officers and directors, a lock-up agreement, which limits the ability of the officers and directors to sell securities of the Company.

The equity line contains certain covenants that prohibit the Company from merging or consolidating with another entity or transferring substantially all of the assets of the Company into another entity, unless the successor assumes the Company’s obligations under the equity line.

Market Development

On October 23, 2001, the Company entered into a marketing relations contract Pursuant to the contract the marketing firm will provide marketing services in exchange for 19,000 shares of ARS common stock issued monthly through October 2002. The contract can be terminated on a quarterly basis.

As part of its sales and marketing strategies, ARS will:

- Install a mini network and crossing showcase.
- Make real time live network presentations to railway industry executives and their Boards.
- Negotiate purchase contracts with customers (subject to successful results) during the show case phase for delivery and installation beginning in 2003.

- Establish awareness of and interest in the ARS Crosslogix network and its various information system products in the remainder of the market (687 railways and 60 rapid transit operations across North America).
- Appoint a Vice President Sales and Service in the ARS organization to co-ordinate efforts under 1) and 2) above to immediately start building a full support and service network.
- During the show case phase of the crossing product launch, build strong personal relationships with key decision makers in each company in order to both understand their information transfer needs more thoroughly and effectively position the ARS Crosslogix network system and all its potential products for future sales and service.

Purchase or Sale of Plant and Significant Equipment

During the current fiscal period, the Company does not anticipate purchasing or selling any plant or significant equipment.

Significant Changes in Numbers of Employees

The Company currently has seven employees, of which two are full-time. The Company expects to hire one additional employee in the current fiscal year.

Patents

ARS has patent protection, under a license agreement, for an Automated Railway Crossing. The patent was granted in June 2001. The Company is in negotiations to license a second patent filed on April 6, 2001 for an Automated Railway Monitoring System.

Non Qualified Stock Compensation Plan

In May 2002, the Board of Directors authorized the 2002 NON-QUALIFIED STOCK COMPENSATION PLAN which reserves 5,000,000 shares for employees, directors, officers, consultants, advisors and other persons associated with the Company and is intended to advance the best interests of the Company by providing those persons who have a substantial responsibility for its management and growth with additional incentive by increasing their proprietary interest in the success of the Company.

Effect of Recent Accounting Pronouncements

In June 2001, the FASB finalized SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires the use of the purchase method of accounting and prohibits the use of the pooling-of-interests method of accounting for business combinations initiated after June 30, 2001. SFAS No. 141 also requires that the Company recognize acquired intangible assets apart from goodwill if the acquired intangible assets meet certain criteria. SFAS No. 141 applies to all business combinations initiated after June 30, 2001 and for purchase business combinations completed on or after July 1, 2001. It also requires, upon adoption of SFAS No. 142, that the Company reclassify the carrying amounts of intangible assets and goodwill based on the criteria in SFAS No. 141.

SFAS No. 142 requires, among other things, that companies no longer amortize goodwill, but instead test goodwill for impairment at least annually. In addition, SFAS No. 142 requires that the Company identify reporting units for the purposes of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets, and cease amortization of intangible assets with an indefinite useful life. An intangible asset with an indefinite useful life should be tested for impairment in accordance with the guidance in SFAS No. 142. SFAS No. 142 is required to be applied in fiscal years beginning after December 15, 2001 to all goodwill and other intangible assets recognized at the date, regardless of when those assets were initially recognized. SFAS No. 142 requires the Company to complete a transitional goodwill impairment test six months from the date of adoption.

The Company is also required to reassess the useful lives of other intangible assets within the first interim quarter after adoption of SFAS No. 142.

The acquisition of T & T was accounted for using the purchase method. As of January 31, 2002 and April 30, 2002, the net carrying amount of goodwill is \$329,200. Currently, the Company is assessing but has not yet determined how the adoption of SFAS No. 141 and SFAS No. 142 will impact its financial position and results of operations.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Assets Retirement Obligations," which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 is required to be applied for fiscal years beginning after June 15, 2002. The adoption of SFAS No. 143 is not expected to have a material effect on the Company's financial statements.

In October, 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which addresses financial accounting for the impairment or disposal of long-lived assets. SFAS No. 144 requires that one accounting model be used for long-lived assets to be disposed of by sale, and broadens the presentation of discontinued operations to include more disposal transactions. SFAS No. 144 is required to be applied for fiscal years beginning after December 15, 2001. The adoption of SFAS No. 144 is not expected to have a material effect on the Company's financial statements.

Part II

Other Information

Item 1. Legal Proceedings.

None

Item 2. Changes in Securities and Use of Proceeds.

(a), (b) and (d). None.

(c) Sale of Unregistered Securities.

In April 2002, the Company issued 59,460 shares to consultants as the final payment for services valued at \$8,300.

In March 2002, ARS issued 106,780 shares for services valued at \$21,400.

In February 2002, ARS issued 150,000 shares to two consultants to the company as additional compensation valued at \$22,500 for their services. Also in February, the Company issued 25,000 shares valued at \$3,250 to Betty Harland, a related party, as partial consideration for her promissory note. As previously reported and noted below, in May 2001 the Company issued 191,740 shares subject to vesting schedules of which 27,560 shares valued at \$4,100 vested in February 2002. ARS also sold 92,593 shares for gross proceeds of \$10,000.

In January 2002, the Company issued 1,020,000 shares for services valued at \$142,600.

In December 2001, ARS sold 75,000 shares for gross proceeds of \$7,500. Also in December, the Company issued 125,000 shares for services valued at \$12,500.

In November 2001, ARS sold 10,000 shares for consideration of \$1,710.

In October 2001, ARS sold 235,043 shares for \$0.117 per share for aggregate proceeds of \$27,500. Also in October 2001, ARS issued 135,000 shares of common stock for future services, of which 90,000 are subject to vesting schedules. In addition, ARS issued 800,600 shares of common stock to officers and directors as a bonus. These shares were valued at \$80,060.

In August 2001, ARS issued 48,049 of common stock for services valued at \$40,000 in aggregate.

In June 2001, ARS issued 135,000 shares of common stock for future services. Of the total number of shares issued for services, 65,000 shares are subject to vesting schedules. If these services are terminated, then any unvested shares will be forfeited. The 70,000 shares of common stock that have vested had a value of \$9,500.

In May 2001, ARS sold 50,000 shares of common stock for \$0.77 per share or aggregate consideration of \$38,500. Also in May 2001, ARS issued 270,740 shares of common stock for future services. Of the total number of shares issued for services, 191,740 shares are subject to vesting schedules. If these services are terminated, then any unvested shares will be forfeited. The 79,000 shares that had vested have a value of \$68,000. ARS also issued 5,000 shares of common stock for services valued at \$4,250 in May, 2001.

In April 2001, ARS sold 200,000 shares of common stock for \$0.60 per share or aggregate consideration of \$120,000. Also in April 2001, ARS issued 23,303 shares of common stock for services valued at \$20,000. ARS also issued 12,000 shares of common stock for services valued at \$4,438.

In March 2001, ARS entered into the Equity Line of Credit Agreement with Cornell Capital Partners, L.P. To date, ARS received gross proceeds of \$300,000 (\$270,000 net proceeds) under the Equity Line of Credit upon the issuance of 2,780,617 common shares. Under the equity line, Cornell Capital Partners is committed to purchase up to \$5,000,000 of ARS' common stock over the course of 24 months from the effective date of ARS's registration statement registering the sale of the shares by Cornell Capital Partners. Under the equity line, ARS may request an advance by Cornell Capital Partners. The number of shares of common stock that Cornell Capital Partners shall receive for each advance shall be determined by dividing the amount of the advance by the purchase price. The purchase price is 90% of the market price. The maximum advance amount shall be equal to 150% of the average daily volume of ARS' common stock multiplied by the purchase price. The average daily volume shall be computed by using the forty trading days prior to the advance notice date. The advance notice date is the date Cornell Capital Partners receives a written notice from ARS requesting an advance amount under the equity line. The market price is the average of the lowest closing bid prices of the common stock over the ten trading day period beginning on the first trading day after an advance notice date and ending on the trading day prior to the relevant advance date. The foregoing description of the Equity Line of Credit is qualified in its entirety by the terms of the agreements set forth in exhibit 10 hereto.

There will be a minimum of eleven trading days between advance notice dates. The Company has the right to withdraw that portion of an advance that does not meet the minimum acceptable price. The minimum acceptable price is defined as 75% of the lowest closing bid price of ARS' common stock for the fifteen trading days prior to a relevant advance notice date.

Upon each advance date, ARS will pay to Yorkville Advisors Management, LLC an amount equal to 8.4% of the amount of the advance. Upon the execution of the equity line, ARS issued 450,000 restricted shares of ARS' common stock to Yorkville Advisors Management that were reflected as a cost of raising capital and recorded at par in the accompanying financial statements. Such restricted shares as well as the shares under the Equity Line have demand and "piggyback" registration rights.

Also in March 2001, the Company sold 2,500 shares of common stock for \$1.12 per share, or aggregate consideration of \$2,800. The Company issued 45,000 shares of common stock for services valued at \$47,813. The Company issued 140,000 shares of common stock to National Financial Communications Corp. for services valued at \$131,250.

In February 2001, ARS sold 22,000 shares of common stock for \$1.15 per share, or aggregate consideration of \$25,300. ARS also issued 41,300 shares of common stock to settle accounts payable of \$10,325. Also in February 2001, ARS issued 152,700 shares of common stock in lieu of management compensation valued at \$33,400.

During the year ended January 31, 2001, the company sold 430,000 shares of common stock at prices ranging from \$.25 per share to \$1.50 per share for aggregate consideration of \$259,705.

In January 2001, the Company issued 1,000,900 shares of common stock in lieu of management compensation valued at \$219,000. Also in January 2001, the Company issued 40,000 shares of common stock for services valued at \$16,876.

In December 2000, the Company issued 1,000 shares of common stock for transportation services valued at \$375.

In November 2000, the Company issued 5,000 shares of common stock for printing services valued at \$2,656.

In October 2000, the Company issued 50,000 shares of common stock valued at \$25,000 in connection with the appointment of an advisory board member. Also in October 2000, the Company issued 45,000 shares of common stock for investor relations services valued at \$22,500.

In September 2000, the Company issued 7,000 shares of common stock to two directors in satisfaction of an outstanding loan in the amount of \$4,760 owed by the Company.

In August 2000, the Company issued 50,000 shares of common stock for services valued at \$33,587.

In July 2000, the Company issued 200,000 shares of common stock to the former shareholders of T & T in connection with the Company's acquisition of T & T. These shares were valued at \$200,000 and were redeemable. See "Purchase of T & T Diesel Power, Ltd."

In May 2000, the Company issued 20,000 shares of common stock for legal services valued at \$52,500.

In February 2000, the Company issued 150,000 shares of common stock for services valued at \$225,000.

In January 2000, the Company issued 362,500 shares of common stock in lieu of management compensation valued at \$362,500. Also in January 2000, the Company issued 82,500 shares of common stock for consulting services valued at \$82,500.

During the year ended January 31, 1999, the Company sold 187,500 shares of common stock for \$1.00 per share or aggregate consideration of \$187,500. The Company also issued options to purchase 41,500 shares of common stock at an exercise price of \$1.25 per share and options to purchase 41,500 shares of common stock at an exercise price of \$1.75 per share. These options are exercisable at any time after May 1, 1999, subject to certain conditions, and expire 60 months after that date.

In April, 1999, the Company issued 250,000 common shares under stock options exercised by certain consultants to the company for \$25.

With respect to the sale of unregistered securities referenced above, all transactions were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933 (the "1933 Act"), and Regulation D promulgated under the 1933 Act. In each instance, the purchaser had access to sufficient information regarding our company so as to make an informed investment decision. More specifically, the Company had a reasonable basis to believe that each purchaser was an "accredited investor" as defined in Regulation D of the 1933 Act and otherwise had the requisite sophistication to make an investment in the Company's common stock.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits.

<u>Exhibit No.</u>	<u>Description</u>	<u>Location</u>
2.1	Share Purchase Agreement dated as of July 31, 2000 among the former shareholders of T & T Diesel Power, Ltd. and the Company	Incorporated by reference in Registration Statement on Form SB-2 filed with the Commission on September 19, 2001, as amended,
2.2	Escrow Agreement dated as of July 31, 2000 among the Pallet Valo, the former shareholders of T & T Diesel Power, Ltd. and the Company	Incorporated by reference in Registration Statement on Form SB-2 filed with the Commission on September 19, 2001, as amended,.
2.3	Promissory Note dated as of July 31, 2000 given by the Company to the former shareholders of T & T Diesel Power, Ltd.	Incorporated by reference in Registration Statement on Form SB-2 filed with the Commission on September 19, 2001, as amended,
3.1	Certificate of Incorporation	Incorporated by reference to Amendment No. 5 to the Company's Registration Statement on Form 10-SB filed with the Securities and Exchange Commission on September 7, 1999.
3.2	Articles of Amendment to the Articles of Incorporation	Incorporated by reference in Registration Statement on Form SB-2 filed with the Commission on September 19, 2001, as amended,.
3.3	Bylaws	Incorporated by reference to Amendment No. 5 to the Company's Registration Statement on Form 10-SB filed with the Securities and Exchange Commission on September 7, 1999.
4.1	Lockup Agreement with Sydney Harland	Incorporated by reference in Registration Statement on Form SB-2 filed with the Commission on September 19, 2001, as amended,
4.2	Lockup Agreement with Donald Hathaway	Incorporated by reference in Registration Statement on Form SB-2 filed with the Commission on September 19, 2001, as amended.
4.3	Lockup Agreement with Robert Esecson	Incorporated by reference in Registration Statement on Form SB-2 filed with the Commission on September 19, 2001, as amended.
4.4	Lockup Agreement with Peter Hoult	Incorporated by reference in Registration Statement on Form SB-2 filed with the Commission on September 19, 2001, as amended,

4.5	Lockup Agreement with Mark Miziolek	Incorporated by reference in Registration Statement on Form SB-2 filed with the Commission on September 19, 2001, as amended.
4.6	Lockup Agreement with Patrick Shea	Incorporated by reference in Registration Statement on Form SB-2 filed with the Commission on September 19, 2001, as amended.
10.1	Consulting Agreement dated as of February 9, 2001 between National Financial Communications Corp. and the Company	Incorporated by reference in Registration Statement on Form SB-2 filed with the Commission on September 19, 2001, as amended.
10.2	Equity Line of Credit Agreement dated as of March 22, 2001 between Cornell Capital Partners, L.P. and the Company	Incorporated by reference in Registration Statement on Form SB-2 filed with the Commission on September 19, 2001, as amended.
10.3	Escrow Agreement dated as of March 22, 2001 among Butler Gonzalez LLP, First Union National Bank and the Company	Incorporated by reference in Registration Statement on Form SB-2 filed with the Commission on September 19, 2001, as amended.
10.4	Registration Rights Agreement dated as of March 22, 2001 between Cornell Capital Partners LP and the Company	Incorporated by reference in Registration Statement on Form SB-2 filed with the Commission on September 19, 2001, as amended.
10.5	Consulting Services Agreement dated as of March 22, 2001 between Yorkville Advisors Management, LLC and the Company	Incorporated by reference in Registration Statement on Form SB-2 filed with the Commission on September 19, 2001, as amended.
10.6	Management Agreement for Vice President Finance and Chief Financial Officer dated as of January 1, 2001 between Mark P. Miziolek and the Company	Incorporated by reference in Registration Statement on Form SB-2 filed with the Commission on September 19, 2001, as amended.
10.7	Management Agreement for President and Chief Executive Officer dated as of January 1, 2001 between Sydney Harland and the Company	Incorporated by reference in Registration Statement on Form SB-2 filed with the Commission on September 19, 2001, as amended.
10.8	License Agreement dated as of May 20, 1998 between Sydney Harland and the Company	Incorporated by reference in Registration Statement on Form SB-2 filed with the Commission on September 19, 2001, as amended.

10.9	Promissory Note dated as of July 31, 2001 in the original principal amount of \$100,000 Canadian Dollars given by the Company to Betty Harland	Incorporated by reference in Registration Statement on Form SB-2 filed with the Commission on September 19, 2001, as amended.
10.10	Consulting services contract with Inc. Financial Group LLC dated January 29, 2002	Incorporated by reference on Form 10KSB filed May 15, 2002.
10.11	2002 Non Qualified Stock Option Plan	Provided Herewith
11.1	Statement re: Computation of Per Share Earnings	Not Applicable.
21.1	Subsidiaries of the Registrant	Provided herewith.

(b) Reports on Form 8-K.

None

Signatures

In accordance with the requirements of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

June 14, 2002

ARS NETWORKS, INCORPORATED

By: /s/ Sydney A. Harland
Name: Sydney A. Harland
Title: President and CEO